

**REPORT OF THE AUDIT OF THE
FORMER NELSON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER NELSON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the former Nelson County Sheriff for the period April 16, 2010 through December 31, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$20,014,640 for the districts for 2010 taxes, retaining commissions of \$632,110 to operate the Sheriff's office. The former Sheriff distributed taxes of \$19,350,061 to the districts for 2010 taxes.

Report Comment:

2010-01 The Former Sheriff Should Collect One Percent On Commissions For Fire Taxing Districts

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Dean Watts, Nelson County Judge/Executive

Honorable Mike Newton, Former Nelson County Sheriff

Honorable Stephen Campbell, Nelson County Sheriff

Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the former Nelson County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010. This tax settlement is the responsibility of the former Nelson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Nelson County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through December 31, 2010, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Former Nelson County Sheriff
Honorable Stephen Campbell, Nelson County Sheriff
Members of the Nelson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 22, 2011 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Former Sheriff Should Collect One Percent On Commissions For Fire Taxing Districts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

July 22, 2011

NELSON COUNTY
MIKE NEWTON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through December 31, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 3,283,836	\$ 2,826,020	\$ 9,563,536	\$ 2,801,984
Tangible Personal Property	255,724	155,514	487,141	964,081
Fire Protection	584			
Increases Through Exonerations	4,485	2,808	17,882	9,531
Franchise Taxes	664,965	378,727	1,580,610	
Additional Billings	206	185	897	176
Limestone, Sand and Mineral Reserves	830	546	3,611	708
Bank Franchises	163,580			
Penalties	100	64	170	
Adjusted to Sheriff's Receipt	(178)	(112)		(265)
Gross Chargeable to Sheriff	4,374,132	3,363,752	11,653,847	3,776,215
<u>Credits</u>				
Exonerations	14,701	13,863	67,463	13,373
Discounts	67,487	51,561	174,867	59,435
Official Receipt for Incoming Sheriff	289,392	260,142	849,297	257,455
Franchise Taxes	245,778	140,071	648,421	
Total Credits	617,358	465,637	1,740,048	330,263
Taxes Collected	3,756,774	2,898,115	9,913,799	3,445,952
Less: Commissions *	159,663	107,890	218,104	146,453
Taxes Due	3,597,111	2,790,225	9,695,695	3,299,499
Taxes Paid	3,590,088	2,785,130	9,685,079	3,289,764
Refunds (Current and Prior Year)	7,008	5,121	10,605	9,735
Due Districts (Refunds Due Sheriff)		**		
as of Completion of Audit	\$ 15	\$ (26)	\$ 11	\$ 0

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 MIKE NEWTON, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2010 TAXES
 For The Period April 16, 2010 Through December 31, 2010
 (Continued)

* Commissions:

4.25% on	\$	9,630,700
4% on	\$	9,913,800
1% on	\$	470,140

** Special Taxing Districts:

Library District	\$	(4)
Extension District		(36)
Soil Conservation		(17)
Northeast Fire District		31
		<hr/>

Due District or

(Refunds Due Sheriff)	\$	<u>(26)</u>
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NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Nelson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Nelson County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2010 through December 31, 2010.

Note 4. Interest Income

The former Nelson County Sheriff earned \$4,076 as interest income on 2010 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of July 22, 2011, the former Sheriff owed \$436 in interest to the school district and \$416 in interest to his fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The former Sheriff's escrowed amount is as follows:

2008	3,663
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KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Former Nelson County Sheriff
Honorable Stephen Campbell, Nelson County Sheriff
Members of the Nelson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Nelson County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010, and have issued our report thereon dated July 22, 2011. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Nelson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Nelson County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2010-01.

This report is intended solely for the information and use of management, the Nelson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

July 22, 2011

COMMENT AND RECOMMENDATION

NELSON COUNTY
MIKE NEWTON, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The Former Sheriff Should Collect One Percent On Commissions For Fire Taxing
Districts

The former Nelson County Sheriff collected a commission rate of 4.25% for the Northeast Nelson Fire District. According to KRS 75.040(4), the Sheriff shall be entitled to a fee one percent (1%) of the amount collected by him. We recommend the Sheriff convene with the County Attorney and collect the correct commission rate for ensuing tax years.

Sheriff's Response: No response.

